Australia: Agricultural Equipment

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Summary

Australia's agricultural industry is considered one of the world's most sophisticated farming economies. Modern agriculture remains the 'backbone' of the Australian economy. By adopting new technologies, seizing upon environmentally-sustainable farm practices, and improving efficiencies and competitiveness are essential to Australia's economic, environmental and social wellbeing. Australian farms and related sectors generate almost $90 billion annually accounting for 12% of Australia's GDP.

Despite its place as a leading agricultural producer, the Australian agriculture industry continues to face a number of challenges. These include an on-going severe drought, decreasing availability of farm labor supply, increased export competition from low labor cost countries, salinity and soil acidity, ambivalence toward genetically modified crops, strict quarantine regulations and ongoing pressure to farm in more environmentally sustainable ways.

Australia has responded to these challenges by developing and adopting world-best farming practices. The U.S. has been a key partner in many of Australia's agricultural pursuits, with many similarities between the styles of agricultural production in both countries.

This report focuses on agricultural equipment for the Australian market. Such equipment includes cutting equipment, dryers, sprayers, plows and spreaders, harvesting equipment, dairy machinery, agricultural production machinery and tractors. Australian farmers are particularly selective when purchasing farming machinery and associated parts, currently sourcing from a number of different countries including Canada, Germany and New Zealand.

Despite the current market challenges, the outlook for agricultural equipment (and associated parts) is positive. The prospect of continued high commodity prices (the most significant influence on machinery sales) and the likelihood of changed weather patterns provides the industry with confidence for 2008 and beyond. That confidence is being reflected by strong levels of 'forward orders' of machinery through the early part of the year.

All figures quoted in this report are based on the exchange rate: AUD$1 = US$0.87

Market Overview

Agriculture is a key element of Australia's economy and makes up around 3.0% of GDP. The gross value of agricultural products produced in Australia in 2007 was approximately $29.6 billion. Australia produces a large variety of crops and livestock for both domestic consumption and export, the major products including: crops, horticulture, viticulture, livestock, dairy, fisheries and fiber.

Around 60% of Australia's land area is used for some form of agricultural activity. Measuring around 1.7 million square miles this represents an area about half the size of the United States. Agriculture and related services activities employ around 402,000 people and result in annual exports with a value of around $21 billion. Large trading partners include Japan, USA, China, and the UK.

There are a number of key industry concerns and drivers within Australia's agricultural sector. One of the biggest issues currently affecting Australian farmers is a prolonged period of drought. Australia is in the grip of the worst drought in 1,000 years. This has affected the country's GDP growth, shaving as much as 1% off the economy's annual growth rate. Recently, senior economists from several of Australia's major banks forecast a 12 percent fall in farm production and a $4.5 billion fall in net income.

For many of Australia's farmers, the weather serves as the third prong of an economic pitchfork, added to the strong Australian dollar, and rising input costs (notably fuel). The combination is putting an enormous strain on farm incomes, which is effecting spending while farmers defer investments and equipment upgrades as they 'tighten their belts'. Water efficient farming technologies and delivery systems are an exception. Australia's impressive research and development community is very active in this sector, exploring almost every technology that offers potential to cope with drought conditions, ranging from new seed to ever more efficient irrigation and water re-use.

The Australian Government is supporting drought- affected farmers, rural communities and agriculture-dependent small businesses through income support, interest rate subsidies and free counselling. These measures recognise the impact of dangerous droughts on rural and regional communities, the environment and the broader Australian economy.

Australian farmers have a sophisticated understanding of the environmental impacts of agriculture, including the degradation of resources from poor water use, long-term use of pesticides and fertilizers and increased soil salinity. Farmers continually seek to reduce these environmental effects while maintaining yields. For example, it is not uncommon for spraying equipment to draw on satellite imagery and GPS information to control precisely the application of water or fertilizer.

It should also be highlighted that most of Australia's agricultural products are commodities traded on world markets. The reliance on export markets exposes farmers to currency risks and fluctuations in world prices. These factors affect the level of income generated by the farmers and thus their spending patterns.

However in terms of agricultural equipment sales, 2007 was considered a year of surprises. While most of eastern Australia recorded the driest August, September and October ever on record with many winter crops failing, farmers that did harvest some winter crop, grass or crop-cut for fodder, were rewarded with record prices. This equated to a boom in hay tool sales.

Tractor sales in 2007 were also reasonably robust with the total value of sales (including new combine harvesters and balers) reaching almost $900 million. While this is a decrease of $140 million (or 750 units) on the year before, it was the fifth year where sales exceeded 10,000 units - a significant figure given the dire drought conditions. These continued sales have been as a result of a shift in the industry towards the smaller and mid sized machines. The tractor segment is a highly competitive sector with approximately 40 different manufacturers offering an estimated 700 models.

Despite the overall growth in sales, the segment has seen a decline in revenue. This is due to the decrease in demand for the larger, more expensive tractors such as combine harvesters, tillage and seeding equipment. All states recorded a fall in harvester sales with the largest drop occurring within the largest 'Class 8' harvester representing a decrease of 46 percent within the segment.

Given the flourishing conditions in the state of Western Australia (WA), it is no surprise that it provided the best sales results for the year with the number of tractor sales up by 20 percent.

Baler sales in 2007 continued, up by almost 13 percent on the year before, now valued at $71 million. While round balers accounted for approximately two thirds of all sales, large and small rectangular balers also saw considerable growth. Many balers were sold to farmers in regions that would traditionally purchase combine harvesters for crops. However given the drought, these farmers have been turning their failing crops into hay to take advantage of the high fodder prices. All states experienced an increase in baler sales with the exception of Tasmania and South Australia in the round baler category.

Self Propelled Sprayers (SP Sprayers) continued to maintain sales levels of recent years with sales now valued at $57 million per annum. While growth in sales in recent years coincides with the rising demand from WA, the increase over 2007 can be attributed to stronger demand from QLD. It is the larger SP Sprayers that account for the majority of sales.

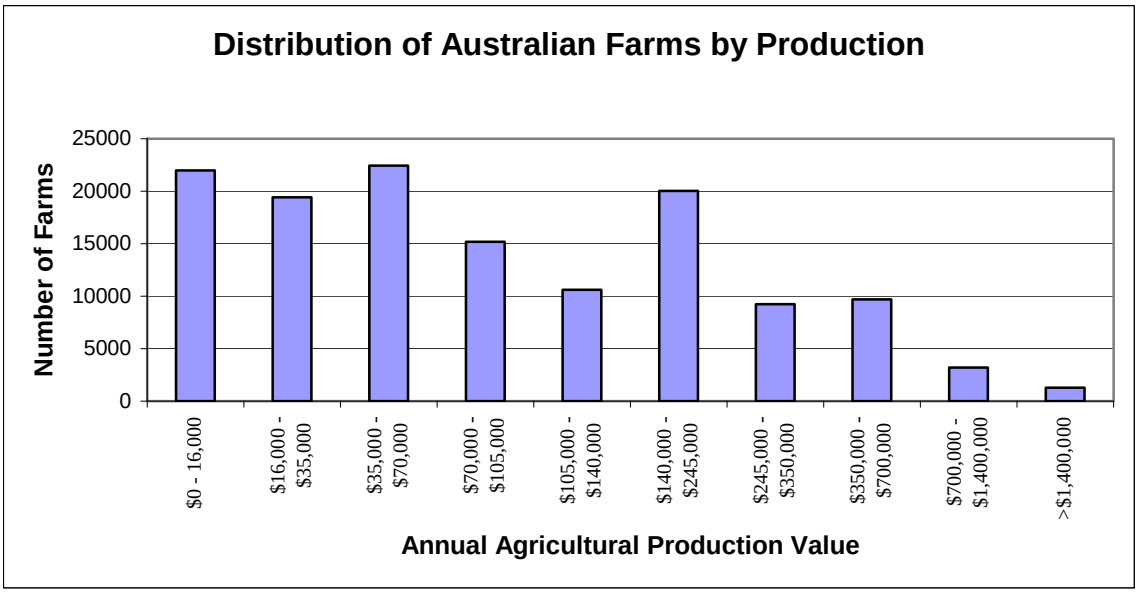
Sales of windrowers are still low (only 79 sold in 2007) however this is highest number of sales of this equipment since 2004. Sales of tyned implements and air seeders also experienced significant decreases, with figures at the lowest levels since the early 1990's when the Australian economy was struggling with record interest rates and the industry was burdened by massive inventories.

Best Prospects include:

- Technology that allows remote access to or can control agricultural functions
- Equipment that automates agricultural tasks that are currently manual
- Water management devices or tools for agriculturists, particularly self propelled sprayers
- Precision farming and farm management tools
- Specialized machinery parts

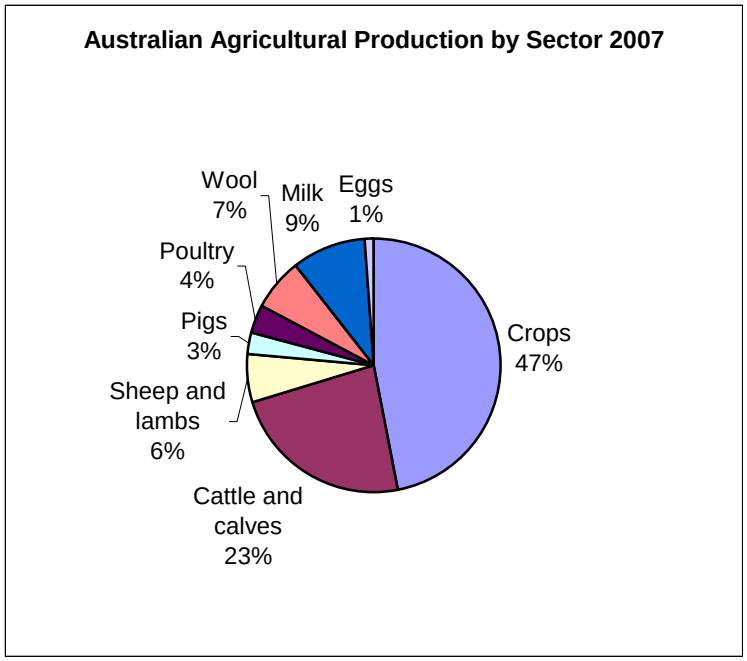
Market Trends

There are 129,934 Australian farms with some form of agricultural activity. Farms range in size from those with agricultural production values of a few thousand dollars to around 5000 farms with annual production values of more than US $700,000. Please see the table below.

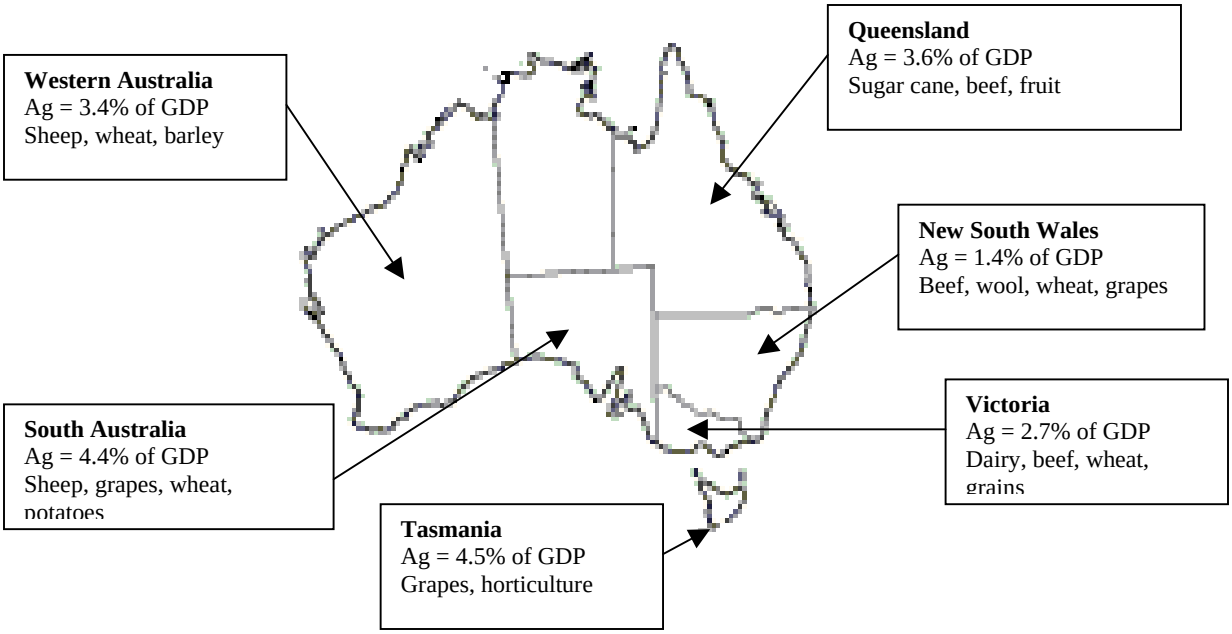


However there is a trend in the number of farms in Australia to decrease while the average size (usually measured in hectares) is increasing. There are two key drivers affecting this consolidation: an increasing push to reduce overheads by spreading equipment costs over larger areas, and the decrease in available farm labor. Australia already boasts some of the largest single farm holdings in the world.

Agricultural activities cover a wide range of crops and animal products, with the distribution of major production types given below.



Agricultural activities are often regionally based in particular Australia states. For several of Australia's states with smaller economies, such as Tasmania, agriculture is considered particularly important.



Australian farming practices are continually looking for new innovations that can further drive productivity and profitability. One example of this is the adoption of GPS technology to reduce inefficient application of fertilizers and reducing the growing area affected by tire compaction.

Another trend in the industry is the increasing customization of farm machinery for particular farming practices. Many suppliers are attempting to respond to a growing number of requests for specialized parts/machinery.

Competition

Australian farmers and agriculturists keep abreast of international developments in agricultural equipment and machinery. Australia has established a large number of agricultural research facilities and universities with dedicated agricultural faculties. A significant amount of equipment and process development and innovation is developed through these facilities.

While not having the heavier equipment manufacturing (i.e. harvesters, tractors) local agriculture companies occupy many segments of the industry (e.g. spraying, farm management systems).
Aside from internal development the Australian agricultural industry has been able to attract significant amounts of foreign equipment such that estimates of imported equipment use are as high as 85% of total equipment.

Many segments of equipment have a number of supplier alternatives with products ranging in both price and quality to cater for all segments of the market. One such segment is the tractor segment where around 16 manufacturers vie for market position.

Despite the above comments, the most likely competitors to incoming U.S. manufacturers of agricultural equipment in a number of areas are other U.S. equipment manufacturers. Please see the table on the following page for an overview of imports in various product categories.

Countries	Cutting Instruments (1)	Dryers (2)	Sprayers (3)	Soil Related Equipment (4)	Harvesters (5)	Misc Production Equip (7)	Grain Equipment (8)	Tractors
Austria			2.23					12.69
Argentina				1.13				
Belgium		0.51			13.35			
Brazil				1.15	7.54			
Canada	0.22			8.2	9.16	11.54		
China	0.22		4.68	1.06	28.45	3.53	0.39	
Denmark							0.44	
France	0.5		1.19	2.1	7.97	3.01		
Germany	0.21		0.85	2.82	20.42	12.24	1.58	82.97
India		0.06						15.89
Ireland						6.27		
Israel			1.21					
Italy	0.58		3.7	7.45	4.21	9.86	0.2	29.72
Japan	0.19	0.01					0.26	28.19
Mexico			1.44					
Netherlands		0.02		1.63	8.36	7.09	0.7	
New Zealand	0.23			5.44	8.77	10.15		
South Korea								8.57
Spain	0.44		0.57				0.32	
Sweden						4.94		
Switzerland							19.26	
Taiwan			3.75				0.1	
Thailand		0.03						
Turkey								7.85
UK	0.1	0.02						35.72
US	3.1		40.93	8.27	173.9	41.26	1.45	98.41
TOTAL	**5.79**	**0.65**	**60.55**	**39.25**	**282.13**	**109.89**	**24.7**	**320.01**

Imports are listed in US$ and are for the year of 2007
Areas highlighted in yellow indicate countries with highest level of imports to Australia in a particular segment

Notes:
(1) Covers HS Code 8208.409.032 – knives and cutting blades for agricultural, horticultural use
(2) Includes HS Code 8419.310.012 – dryers for agricultural products, but not parts for these dryers aggregated under HS Code 8419.909.060
(3) Includes HS Code 8424.810 – agricultural or horticultural sprayers, but not parts for this equipment aggregated under HS Code 8424.900
(4) Plows, harrows, seeders, planters, fertilizer spreaders and associated parts – HS Codes 8432.100-8432.800
(5) Mowers, balers, combine harvesters, threshers, ag cleaning equip and associated parts – HS Codes 8433.110-8433.900
(6) Includes milking and dairy equipment and parts with 75% of imports being for parts
(7) Includes HS Codes 8436.100-8436.900 – misc. agricultural equipment for poultry and other specialty sectors
(8) Machinery for cleaning, milling, sorting grains and cereals – HS Codes 8437.100-8437.900
(9) Covers HS Codes 8701.901.400-600 and 8701.901.150- tractors other than works trucks, other- agricultural tractors, not tractors for dumpers

U.S. agricultural equipment suppliers dominate a number of the major equipment categories including tractors, sprayers, harvesting equipment and cutting instruments. Many of the larger U.S. agricultural equipment companies have established sizeable operations and distribution networks about the country, and have been in business in Australia for 50+ years.

U.S. equipment is recognized for its quality and durability, but is also noted for being reasonably expensive compared to other alternative. Some of the more established U.S. players are able to use their strong brand names to offset the effects of high price, but this may not apply to new U.S. entrants.

End Users

Many farm purchases are made on an irregular basis. Larger equipment purchases will tend to be put off in lean years, with more purchases made following a boom year. Like farmers, machinery and equipment dealers are affected by prevailing weather patterns and subsequent crop yields.

Australian agricultural producers generally do not buy off product specifications - there is a definite preference for viewing and in some cases trying equipment before buying it. There is a significant amount of peer review in the buying decision, whereby local agriculturalists consult with others in their industry about what tends to work.

The above two points have resulted in the proliferation of farm exhibitions and trade shows held about the country on an annual basis. These events allow equipment buyers to not only look at a large range of equipment in the one place, but the opportunity to speak with other users. Given the spread of the agricultural industry across Australia, product distribution and support can be a complex issue – and one of the primary purchasing concerns.

Several large wholesaling groups covering a range of smaller agricultural equipment and chemicals have evolved to address the distribution issue, with the two largest being Elders and Landmark. Larger equipment such as tractors, harvesters and tillage equipment are brokered by individual equipment dealers, who often cover several brands. Regional centers with agricultural activity and more than 5,000 residents might have 1 or 2 equipment dealers, having more dealers in larger centers. Equipment dealers can be reluctant to upset their existing suppliers by introducing competitor products, given the level of co-branding and marketing support they receive from larger suppliers.

Market Access

There are no quota limits on the import of agricultural equipment into Australia. U.S. /Australia FTA reduced all tariffs on this kind of equipment to 0%, although there is the Australian goods and services tax of 10% on all equipment inclusive of landed costs and duties that might be payable. Tractors and other heavy machinery imported into Australia may be required to comply with local standards including safety and transportation.

Because of its continent status and diligence in agricultural quarantine, the Australian agriculture sector is by world standards considered disease and pest free. Australia has among the toughest quarantine measures in the world. The Australian Quarantine and Inspection Service (AQIS) is the Australian government agency in charge of enforcing Australian quarantine laws. Quarantine controls at Australia's borders reduce the risk of exotic pests and diseases to protect Australia's agriculture industries and environment. Quarantine regulations not only apply to the import of agricultural machinery (both new and used) but all timber packing and/or dunnage. All imported used machinery requires an AQIS issued permit and it is a condition of the permit that machinery arrives in Australia in a clean state. AQIS defines "clean as new". U.S. manufacturers of new agricultural equipment/parts may also be required to include a 'manufacturers declaration' with the shipment. For more information on importing agricultural machinery and spare parts into Australia, visit: www.aqis.gov.au

Market Entry

We recommend that U.S. businesses with agricultural equipment opportunities undertake some research before considering entry to the Australian market. There is a significant amount of competition for standard equipment, with many of these competitors being well-positioned US companies having a significant history in Australia. Despite this Australian farmers are often very receptive to new concepts and product innovations.

In many instances US companies will be looking for an Australian distributor or sales agent, as opposed to setting up operations. Whilst some agricultural pursuits and hence products are localized (e.g. sugar cane in Queensland), many segments of agribusiness are dispersed across Australia. This can present problems in reaching and servicing potential users of equipment. The Commercial Service is able to provide assistance in locating distributors that more likely suit a particular piece of equipment through our partner searches.

For companies with a strong interest in supplying the Australian agricultural market, we suggest attending a local trade show as it presents an excellent opportunity to showcase your own product, as well as view competitor products. The Commercial Service is happy to recommend and assist with international visitors to Australian trade shows and expos.

Upcoming Trade Shows/Events

The following table presents a brief listing of some of the more popular trade shows and events for 2008:

Show	Location	Date	Exhibitors	Visitors	Website
Wimmera Field Days	Horsham, Victoria	4-6 March 2008	600	35,000	www.wmfd.com
Southeast Field Annual Field Days	Lucindale, South Australia	14 & 15 March 2008	500	25,000	www.southeastfielddays.com.au
Farmworld	Warragul, Victoria	3-6 April 2008	650	50,000	www.thegfd.com.au
Ag-Fest	Launceston, Tasmania	1-3 May 2008	700	75,000	www.agfest.com.au
Agquip	Gunnedah, New South Wales	19-21 August 2008	2,000	100,000	www.agquip.com.au
Dowerin Field Day	Dowerin, Western Australia	27-28 August 2008	600	45,000	www.dowerinfielddays.com.au
Heritage Ag Show	Toowoomba, Queensland	2-4 September 2008	700		www.agshow.com.au
Henty Machinery Field Days	Henty, New South Wales	23-25 September 2008	800	50,000	www.hmfd.com
Elmore Field Day	Elmore, Victoria	7-9 October 2008	600		www.elmorefielddays.com.au

Key Contacts

- National Farmers Federation of Australia - www.nff.org.au
- State Based Farmers Federations i.e. Victorian Farmers Federation - www.vff.org.au
- Australian Government Department of Agriculture, Fisheries and Forestry – www.affa.gov.au
- Australian Bureau of Agricultural and Resource Economics – www.abare.org.au
- Australian Government Department of Foreign Affairs - http://www.dfat.gov.au/
- Australian Bureau of Statistics – www.abs.gov.au

For More Information

The U.S. Commercial Service Melbourne, Australia can be contacted via e-mail at: kate.wilkie@mail.doc.gov; Phone: +61 3 9526 5927; Fax: +61 3 9510 4660; or visit our website: www.buyusa.gov/australia.

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